

Mexico Power Market: A Powerful Opportunity

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The Mexican power market offers opportunities for private parties to participate in activities that in the past were reserved to the State. Now there are growing numbers of private generators and suppliers that together with marketers and qualified users, constitute this market.

With the 2013 Mexico Energy Reform, the power industry opened to private participants in certain activities. This important Energy Reform in the Mexican Constitution allows private companies to participate in the power sector, except for transmission and distribution which is considered a public service. The Constitutional Reform was soon followed by the enactment of secondary legislation of 2014 through the new power law: *Ley de la Industria Eléctrica* (the “Electric Industry Law”) which specifically provides for private parties to participate in power generation and trading. This open market initiative provides competition for the *Comisión Federal de Electricidad* (“CFE”) Mexico’s productive State-owned company which used to have the power industry monopoly in all aspects.

Although there is now space for competition in the generation of power, the CFE continues to play a dominant role. Distribution and transmission are reserved activities of the State and the current government appears to continue supporting the CFE’s generation projects to strengthen the public power utility as in past administrations prior to the 2013 Mexican Energy Reform (co-generation and thermoelectric projects).

Private generators are to compete in the market alongside CFE’s generating units. On the purchase side of such market there will be power suppliers, marketers and qualified users (with load of at least 1MW). The wholesale market is in place to transact all energy sales, auxiliary services, transmission financial rights, capacity auctions, clean energy certificates (“CELS”) and related products.

20 GW

Recently, analysts of the Mexican economy have indicated an expectation that in order for Mexico’s industrial, manufacturing and other sectors to meet projected growth rates, together with the projected increase in Mexican population, the country would require an additional 20 GW of power over the next twenty years. The most assured mechanism to achieve this significant growth in power capacity is for an active private sector to enter and participate in the development of the overall Mexican power market.

The current Electric Industry Law provides for two types of power supply: (i) suppliers only servicing qualified users (see below) and (ii) suppliers servicing users which are not qualified users, labeled “basic service suppliers”. Marketers may be traders between generators and suppliers or include the role of a supplier. The CFE or any of the subsidiaries it may create will be able to perform any of these activities, subject to legal and accounting separation requirements.

The State retains the public service of transmission and distribution of power. This public service will continue to be provided by the CFE through its special purpose subsidiaries. However, under

the Electric Industry Law, the CFE may enter into joint ventures with private companies or investors for the financing, construction and operation of transmission and distribution projects.

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